



MEMORANDUM

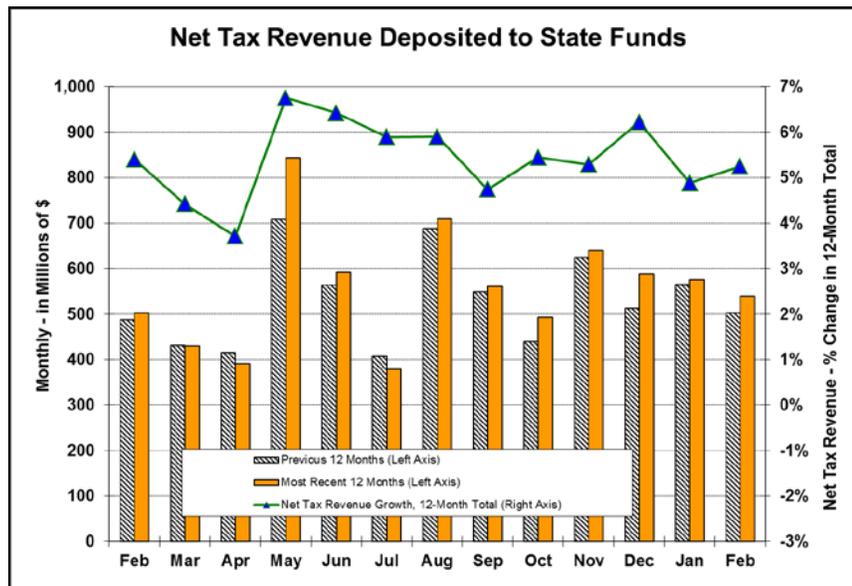
TO: Members of the Iowa Senate and
 Members of the Iowa House of Representatives

FROM: Jeff Robinson
 Shawn Snyder

DATE: March 29, 2012

Twelve-month Total Net Tax Receipts Through February 29, 2012

The attached spreadsheet presents net tax revenue deposited to State funds for the 12-month period ending February 2012 with comparisons to the previous twelve months. February 2011 to February 2012 one-month comparisons are also presented. The source of the information is the State accounting system, including non-General Fund accounts. All accounting transactions related to taxes remitted to the State were reviewed, along with the refunds issued against those taxes.



Overview of Current Situation

Net tax revenue across all State funds increased 7.6% in February and is up 5.2% over the most recent 12 months. A significant portion of the February increase was due to Leap Year, with deposits on February 29 this year representing deposits that occurred March 1 last year. This calendar issue will negatively impact March monthly comparisons. At \$6.740 billion, annual revenue remains below the prerecession peak level of \$6.760 billion (October 2008).

The most recent six months have been marked by strong corporate and vehicle use tax receipts but low growth in withholding tax and fuel tax deposits.

Month of February Comparison

February net tax receipts totaled \$539.8 million, an increase of \$38.3 million (7.6%) compared to February 2011. Major taxes and their contribution to the month's change include:

- Individual Income Tax (positive \$18.0 million, 13.2%) – Gross income tax deposits increased \$26.1 million in February, with one-half of the increase due to February 29 deposits. This calendar issue will negatively impact March comparisons. Individual income tax refunds issued in February were 5.3% higher than last February.
- Sales/Use Tax (positive \$11.7 million, 4.3%)
 - Road Use Tax Fund use tax (fee for new registration) increased \$2.8 million in February. Monthly comparisons have shown increases in 10 of the past 12 months, with six of the percentage increases 9.3% or higher.
 - Gross General Fund sales/use tax receipts increased \$12.6 million, but the month would have been negative had it not been for February 29 deposits. This calendar issue will negatively impact March comparisons. Regular sales tax refunds increased \$2.1 million and school infrastructure transfers out increased \$1.6 million.
- Corporate Income Tax (positive \$7.3 million, 67.6%) – Deposits of corporate income tax receipts continued the recent trend, growing significantly in February. Corporate income tax refunds decreased \$3.1 million.
- Fuel Tax (negative \$1.5 million, - 4.3%) – Gross tax deposits decreased \$1.2 million while tax refunds increased \$0.3 million.
- Cigarette and Tobacco Taxes (negative \$1.4 million, - 8.5%) – Deposit timing issues have produced volatility in recent cigarette and tobacco tax monthly amounts. The \$106.0 million annual limit for deposits to the Health Care Trust Fund was reached in late December. Cigarette and tobacco tax deposits for the remainder of the fiscal year will be deposited to the General Fund.
- Gambling Tax (positive \$2.1 million, 8.8%) – The new casino in Lyon County (opened June 2011) will provide monthly year-over-year revenue increases throughout FY 2012.

Year-over-Year Comparison – Net Tax Revenue

During the 12-month period ending February 2012, net revenue from all taxes deposited to State funds totaled \$6.740 billion, an increase of \$336.0 million (5.2%) compared to the prior 12 months. Major contributors to the year-over-year dollar and percentage changes include:

- Individual Income Tax (positive \$147.6 million, 5.3%) – Individual income tax continues to post good year-over-year annual growth numbers. However, at 3.5%, withholding tax growth is low by historic standards for an economic expansion period.
- Sales/Use Tax (positive \$69.0 million, 3.1%) – With the February increase, annual net sales/use tax revenue has now exceeded the pre-recession peak (November 2008) peak.

- Corporate Income Tax (positive \$97.4 million, 42.5%) – Although up significantly over the most recent 12 months, corporate tax revenue, net of refunds issued, is 9.0% below the prerecession peak (September 2008 = \$359.2 million).
- Fuel Tax (negative \$2.3 million, - 0.5%) – According to Department of Revenue fuel sales reports, over the most recent 12-month period, Iowa taxable gasoline/ethanol gallons sold increased 0.6% while taxable diesel sales increased 0.7%. Both growth percentages have been trending down in recent months. Although up year-over-year, taxable diesel sales over the most recent 12-month period are 4.3% lower than the March 2008 peak diesel sales level and total taxable fuel gallons (gasoline/ethanol/diesel) are only 1.0% above the prerecession (August 2007) peak for all gallons sold.
- Gambling Tax (positive \$14.3 million, 5.1%) – According to Racing and Gaming Commission statistics, four of Iowa's 18 casino/track locations reported negative annual adjusted gross revenue (AGR) growth for the 12-month period ending February 2012. The combined AGR growth for the 18 facilities was positive 5.8% over the same 12 months last year, with the Lyon County casino contributing 53.2% of the AGR growth. Adjusted gross receipts for the most recent 12 months totaled \$1.446 billion.
- Insurance Premium Tax (negative \$3.4 million, - 3.5%)
- Cigarette and Tobacco Tax (negative \$7.3 million, - 3.2%)

Tax Spotlight – Real Estate Transfer Tax

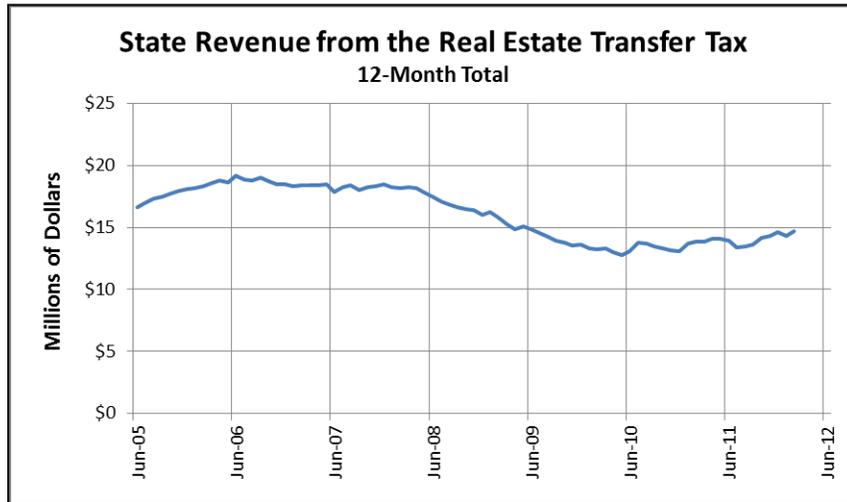
The transfer of real estate is taxed under the authority of [Iowa Code chapter 428A](#). The tax was first effective July 1965, and the current tax rate was effective beginning July 1991. The tax rate is \$0.80 per \$500, including any fractional part of \$500, of consideration paid for real property transferred.

The real estate transfer tax is payable when the instrument conveying the real property is presented for recording. The tax payment is noted on the instrument (usually a deed) of transfer at the time the instrument is recorded. The county recorder must file tax returns with the State Treasurer by the tenth day of each month for tax collected during the preceding month.

The county retains 17.25% of the real estate transfer tax collected. Of the remaining 82.75%, during FY 2012, 80.00% is deposited in the State General Fund, 15.00% goes to the Housing Trust Fund, and 5.00% goes to the Shelter Assistance Fund. The real estate transfer tax dollars reflected in this report do not include the portion retained by counties. For the 12-months ending February 2012, the State collected \$14.7 million from the real estate transfer tax, with \$12.0 million of that amount deposited to the State General Fund and the remainder to the housing and shelter assistance funds.

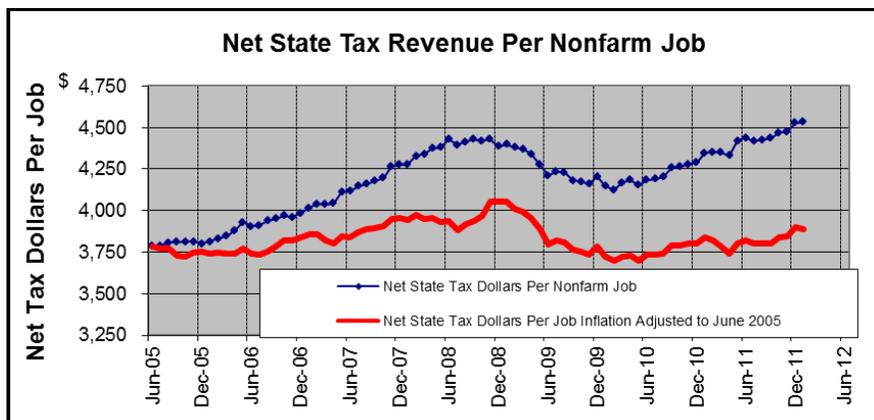
During the 2008 Legislative Session, enactment of SF 2432 (Infrastructure and Capital Projects Appropriations Act) created and added the Housing Trust Fund to the distribution formula. As a result of this legislation, the General Fund portion of the Real Estate Transfer Tax percentage is being reduced five percentage points annually until FY 2015 when the percent deposited will be 65.0%. The Housing Trust Fund will receive the Real Estate Transfer Tax amount reduced from the General Fund. The distribution to the Shelter Assistance Fund will not be impacted.

The Shelter Assistance Fund is administered by the Department of Economic Development (see [Iowa Code section 16.41](#)). Money in the Fund may be used for rehabilitation, expansion, or operating costs of group home shelters for the homeless and domestic violence shelters. Of the moneys in the Fund, at least \$546,000 must be spent annually on homeless shelter projects. The Housing Trust Fund is administered by the Iowa Finance Authority ([Iowa Code section 16.181](#)). Money in the Fund is to be used for the development and preservation of affordable housing for low-income residents within the State.



Tax Revenue and Employment

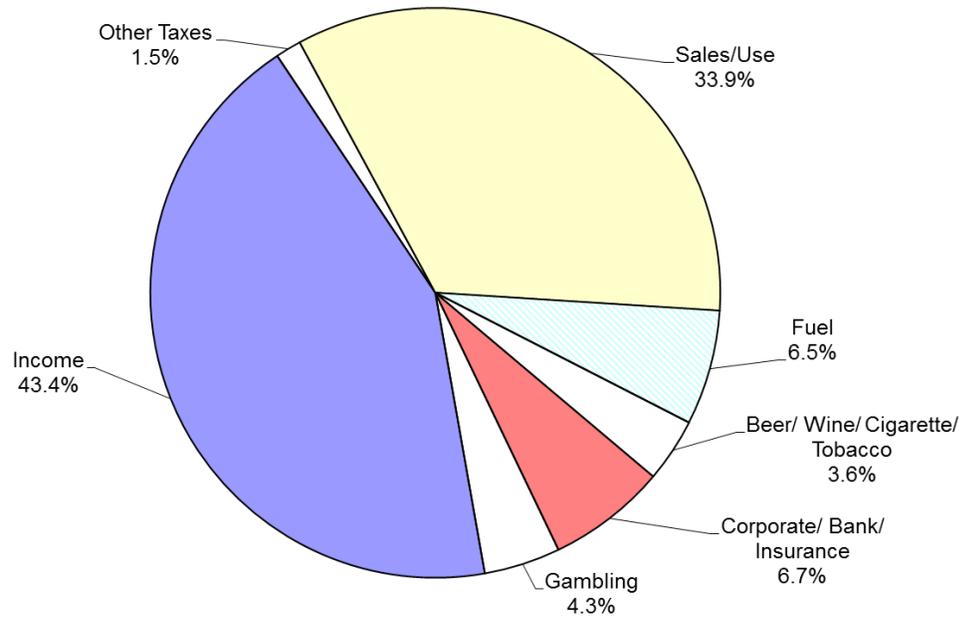
The average reading for Iowa nonfarm employment over the 12 months ending January 2012 is 1,478,600 and net State tax receipts over the same 12 months totaled \$6.701 billion, or \$4,532 per nonfarm job. This is \$748 (19.8%) higher than the per-job average for the 12 months ending July 2005. Over that same time period, inflation (CPI-U) increased 16.5%. Therefore, State tax revenue per job has exceeded the rate of inflation by approximately 0.5% per year since July 2005. The following chart provides a historical perspective of tax collections per nonfarm job (blue line) and inflation-adjusted tax collections per job (red line).



Net State Tax Revenue - Twelve Months Ending February 2012

Net Revenue = \$6.740 Billion

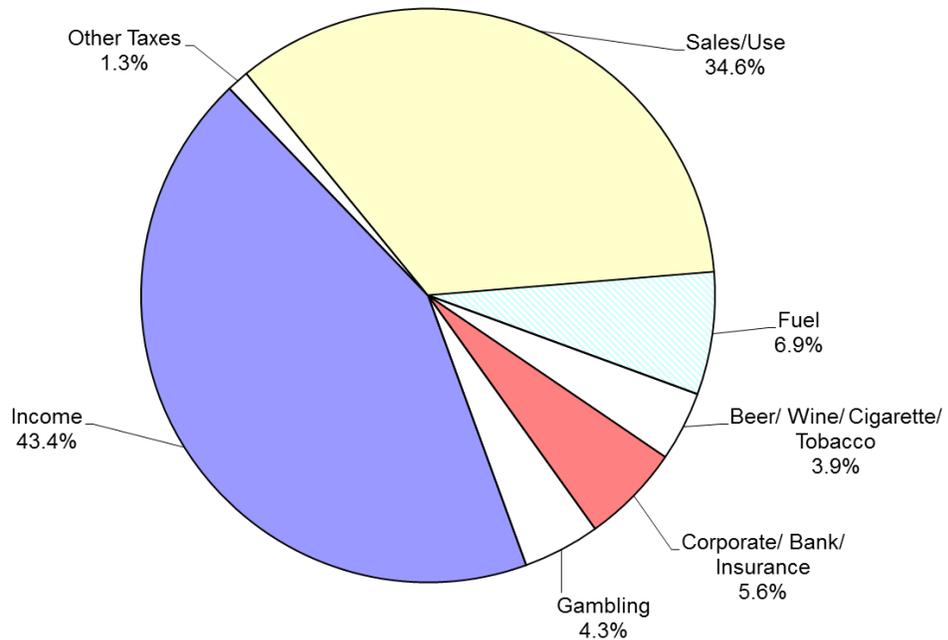
Percentages may not add to 100% due to rounding



Net State Tax Revenue - Twelve Months Ending February 2011

Net Revenue = \$6.404 Billion

Percentages may not add to 100% due to rounding



Net Tax Revenue Deposited to State Funds - Cash Basis

Dollars in millions - Columns and Rows may not add due to rounding

Net Tax by Tax Type	Previous 12-Month Period Total	Most Recent 12-Month Period Total	12-Month \$ Change	12-Month % Change	Month of February 2011	Month of February 2012	February \$ Change	February % Change
Banking	\$ 31.2	\$ 33.0	\$ 1.8	5.8%	\$ 0.5	\$ 0.9	\$ 0.4	80.0%
Beer & Wine	21.2	21.7	0.5	2.4%	1.2	1.4	0.2	16.7%
Cigarette & Tobacco	229.8	222.5	- 7.3	-3.2%	16.4	15.0	- 1.4	-8.5%
Corporate Income	229.3	326.7	97.4	42.5%	10.8	18.1	7.3	67.6%
Fuel	442.1	439.8	- 2.3	-0.5%	34.5	33.0	- 1.5	-4.3%
Gambling	277.7	292.0	14.3	5.1%	23.8	25.9	2.1	8.8%
Individual Income	2,778.5	2,926.1	147.6	5.3%	136.4	154.4	18.0	13.2%
Inheritance	61.8	73.6	11.8	19.1%	4.0	4.9	0.9	22.5%
Insurance	97.7	94.3	- 3.4	-3.5%	1.6	1.6	0.0	0.0%
Other Taxes	4.7	10.5	5.8	123.4%	- 0.2	0.0	0.2	--
Real Estate Transfer	13.9	14.7	0.8	5.8%	0.9	1.3	0.4	44.4%
Sales/Use	2,216.1	2,285.1	69.0	3.1%	271.6	283.3	11.7	4.3%
Total Net Taxes	\$ 6,404.0	\$ 6,740.0	\$ 336.0	5.2%	\$ 501.5	\$ 539.8	\$ 38.3	7.6%
Gross Tax & Refunds								
Gross Tax	\$ 7,627.1	\$ 8,054.2	\$ 427.1	5.6%	\$ 702.2	\$ 749.3	\$ 47.1	6.7%
Tax Refunds	\$ - 1,223.0	\$ - 1,314.2	\$ - 91.2	7.5%	\$ - 200.7	\$ - 209.5	\$ - 8.8	4.4%
Net Tax Receipts by Fund								
State General Fund (GF)	\$ 5,457.1	\$ 5,647.7	\$ 190.6	3.5%	\$ 423.7	\$ 454.7	\$ 31.0	7.3%
Road Use Tax Fund	\$ 717.6	\$ 738.1	\$ 20.5	2.9%	\$ 57.2	\$ 58.6	\$ 1.4	2.4%
Non-GF Gambling	\$ 210.6	\$ 222.6	\$ 12.0	5.7%	\$ 20.0	\$ 25.7	\$ 5.7	28.5%
Other State Funds	\$ 18.8	\$ 131.6	\$ 112.8	600.0%	\$ 0.6	\$ 0.8	\$ 0.2	33.3%
Local Option Taxes *	\$ 789.9	\$ 847.8	\$ 57.9	7.3%	\$ 68.2	\$ 72.6	\$ 4.4	6.5%

* Sales, income, and hotel/motel. Distributed to local governments - not included in numbers above.

Numbers are rounded to the nearest \$0.1 million. Percentages are calculated after rounding.

Tax Categories Used in Table

Franchise (Bank) Tax: Taxes on banks are deposited in the State General Fund. State credit union tax is included on this line also.

Beer & Liquor Tax: Taxes on beer, liquor, and wine are deposited in the State General Fund, the Liquor Control Fund, and a small amount is deposited in a Department of Economic Development fund for wine promotion.

Cigarette & Tobacco Tax: Prior to July 1, 2011, all cigarette and tobacco products tax revenue was deposited to the State General Fund. Beginning FY 2012, the first \$106.0 million of revenue from cigarette and tobacco taxes is deposited to the Health Care Trust Fund and the remainder is deposited to the State General Fund.

Corporate Income Tax: All corporate income tax is deposited in the State General Fund.

Motor Vehicle Fuel Tax: All motor vehicle fuel tax is deposited in one of two road use funds, with the exception of tax revenue from the sale of aviation and marine fuels.

Gambling Tax: Gambling tax is deposited in several State funds, including \$66.0 million per year to the State General Fund. Other funds receiving deposits of gambling tax revenue over the last 24 months include the School Infrastructure Fund, the Rebuild Iowa Infrastructure Fund, the County Endowment Fund, the Vision Iowa Fund, the Revenue Bonds Subsidy Holdback Fund, and the Revenue Bonds Debt Service Fund.

Individual Income Tax: Most individual income tax revenue is deposited in the State General Fund. A total of \$4.0 million per year is deposited in the Workforce Development Fund. An annual \$2.6 million diversion to the Child Daycare Fund ended in FY 2009. In addition, several economic development programs are financed by individual income tax withholding. In those instances, the employer does not remit the tax withheld from employees and it is never deposited in a State fund. That revenue is not included here.

Inheritance Tax: All inheritance tax is deposited in the State General Fund.

Insurance Premium Tax: All insurance premium tax is deposited in the State General Fund.

Other Taxes: Other taxes include brucellosis eradication property tax (deposited in a Department of Agriculture and Land Stewardship fund), drug stamp tax (State General Fund), utility replacement property tax (State General Fund), and car rental tax (Road Use Tax Fund). Other taxes also include a suspense account used to hold tax deposits prior to determining the correct tax type for the money and tax revenue transferred by the Department of Revenue to separate accounts to fund tax collection activities (tax gap and Department operations).

Real Estate Transfer Tax: Real estate transfer tax is collected by counties. Counties retain 17.25% and remit the remainder to the State. The distribution of State portion of real estate transfer tax revenue is currently changing each fiscal year, with the State General Fund portion reduced to 65.0% by FY 2015. The portion not deposited to the State General Fund is deposited to the Housing Trust Fund and the Shelter Assistance Fund.

Sales/Use Tax: General sales/use tax is deposited in the State General Fund, while most vehicle use tax is deposited in the Road Use Tax Fund. Beginning FY 2009, the vehicle use tax is referred to as a fee in the Iowa Code. To allow continuity of data, the revenue from the fee is reflected in this document as tax revenue. Also beginning FY 2009, the School Infrastructure Local Option (SILO) sales tax was converted to a statewide 1.0% sales/use tax and the revenue from that statewide tax is transferred out of the State General Fund monthly through a refund appropriation. To allow for continuity of data, the refund transfers are subtracted from State revenue as part of the net sales/use tax calculation.

Local Option Taxes: Local option taxes are presented at the bottom of the table and are not included in the numbers above. Prior to FY 2009, local option taxes included the SILO tax, Local Option Sales Tax (LOST) for local government finance, Local Option Income Surcharge for schools, and hotel/motel tax. Beginning FY 2009, the SILO tax was converted to a 1.0% statewide tax and the SILO was eliminated. To allow for continuity of data, the transfers from the State General Fund as a result of the 1.0% statewide tax are included in the local option tax amount.

Report Database

The database for this report is the State accounting system. If transactions are incorrectly coded in the system as tax revenue or tax refunds, the numbers presented here will be impacted.